



**COUNCILMEMBER DONNA FRYE**

**City of San Diego  
Sixth District**

**MEMORANDUM**

09-01

**DATE:** January 26, 2009  
**TO:** David Wescoe, Administrator/CEO, SDCERS  
**FROM:** Councilmember Donna Frye  
**SUBJECT:** State Street Bank

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I appreciated the January 21, 2009, letter issued by Callan Associates regarding "State Street News." However, I would like you to address a few additional concerns I have regarding the city's relationship with State Street Bank.

1. How much does SDCERS have on deposit with State Street Bank?
2. Does State Street have sufficient capital available to ensure the safety of SDCERS's deposits with it?
3. What is SDCERS's potential exposure, given State Street's current condition, and what are the risks for SDCERS at this point?

I would appreciate a response at your earliest convenience.

CC: Honorable City Councilmembers  
Honorable Mayor Jerry Sanders  
Jan Goldsmith, City Attorney  
Andrea Tevlin, Independent Budget Analyst  
Stan Keller, Independent Monitor

ATTACHMENT: 1/21/09 Callan Associates letter

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# CALLAN ASSOCIATES

## MEMORANDUM

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SAN FRANCISCO

NEW JERSEY

CHICAGO

ATLANTA

DENVER

**To:** Liza Crisafi and David Wescoe

**From:** Janet Becker-Wold

**Date:** January 21, 2009

**Subject:** State Street News

The Wall Street Journal published an article on Tuesday covering State Street's filing with the SEC last Friday. A follow-up article appeared today. Tuesday's WSJ article stated that while revenue growth for the first three quarters of the year was good, State Street disclosed \$9.1 billion in unrealized losses in their conduits and cash pools (mostly in the cash collateral pools in securities lending). All three of the issues covered in the article, enumerated below, were known previously.

(1) State Street's conduits (off-balance sheet vehicles) have \$3.6 billion in unrealized losses. The conduits issue asset-backed commercial paper and invest in structured securities such as residential mortgage backed securities, student loans, and credit card debt. The conduits are sponsored by State Street Corporation but the outstanding commercial paper and structured debt investments are not on the balance sheet. SDCERS has no exposure to State Street's conduits.

(2) The remaining balance of \$6+ billion in unrealized losses are in their cash collateral pools and other short term vehicles. The money market funds are covered by the government so they are not an issue. As you are aware, the cash collateral pools that are managed to a \$1 NAV are currently valued at 96 cents to 97 cents to the dollar due to current illiquidity in the fixed income markets. While SDCERS participates in State Street's cash collateral pools, neither State Street nor SDCERS has realized any losses to date in these pools. If the securities currently held in the pools are held to maturity, State Street does not expect to realize any losses.

(3) State Street took a \$450 million charge in the fourth quarter to support its stable value funds. SDCERS has no exposure to State Street's stable value funds.

After this information was released, the markets panicked pushing State Street's stock price down 59% to \$15 a share. In a letter to clients on Tuesday, State Street confirmed their Tier 1 Capital Ratio is 20.49% and that they are still rated Aa1 and AA by Moody's and Fitch respectively. S&P downgraded them on January 20 from AA to AA-. They reiterated that none of the investments in the investment portfolios are in default and are current for interest and principal.

As liquidity improves in the credit markets, the market-to-market (or unrealized) losses should decline. In fact, State Street noted in the SEC filing that unrealized losses dropped by \$400 million this year through last Friday.

We are not recommending any immediate action but will continue to monitor the situation closely.

*This information was compiled from the two WSJ articles, the State Street letter, and comments by Callan's custody expert Bo Abesamis.*